

Between tradition and change: the Scottish social economy sector at a crossroad

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Published in:
Management International

DOI:
[10.7202/1083842ar](https://doi.org/10.7202/1083842ar)

Publication date:
2021

Document Version
Author accepted manuscript

[Link to publication in ResearchOnline](#)

Citation for published version (Harvard):

Baglioni, S & Mazzei, M 2021, 'Between tradition and change: the Scottish social economy sector at a crossroad', *Management International*, vol. 25, no. 4, pp. 57-68. <https://doi.org/10.7202/1083842ar>

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Between tradition and change: the Scottish social economy sector at a crossroad

Abstract (150 words max)

This paper discusses the origins and motives behind the rich institutional and policy infrastructure that Scotland has developed in previous decades to support the social economy sector. Drawing on a large body of primary data collected through an EU funded project - over the past 3 years through a mixed-methods approach - this paper reflects upon the effects of the economic and financial crisis, and how such changes may shed light on the future of the social economy in Scotland.

Keywords (5): social economy, devolution, policy making, redistributive and consensus building policy

Introduction

In relatively recent years, Scotland has developed a sophisticated institutional and policy infrastructure to support the development of the social economy sector. The social economy consists of organisations that puts the pursuit of social aims at the heart of their economic activity (Hudon and Huybrecht 2017), and often these organisations are referred to as social enterprises, despite the contested nature of the term (for a full discussion on this see Teasdale 2010). In the UK the label ‘social enterprise’ became popular during the New Labour Government in Westminster, but in Scotland the term was used later, only appearing in the policy documents of the Scottish Labour Party at the very end of their administration in 2007 (Scottish Executive 2007) a full decade after Leadbeater’s (1997) influential pamphlet *The Rise of the Social Entrepreneur* which had so influenced the Labour Party’s agenda in England. Prior to this, the focus in Scotland had been on what was referred to as the ‘voluntary sector’ and subsequently the ‘social economy’ (Scottish Executive 2003). However, following its election as a minority Government in Scotland in 2007, the Scottish National Party (SNP) enthusiastically embraced what they described as the ‘enterprising third sector’, and introduced a raft of initiatives and significant financial support for social enterprise (Scottish Government 2008). Since then, in parallel with most of the Western European countries (cfr. Author A 2017, and Author A et al. 2019 for an historical overview of the diffusion of social enterprise in Europe) social enterprises have become a central component of the country’s policy agenda in key areas such as employment (and especially youth employment), social care, local development, and social cohesion. There is hardly a policy field in which the intervention of or the reference to the social

economy is not, at least in the official policy rhetoric, considered as beneficial for Scotland's society and economy.

In this paper we argue that this process of recognition occurred for a specific purpose, as the newly established SNP government found in the social economy a potential tool for redistributive and consensus building policy. As any new government seeking voters' support and aiming at broadening its social consensus, the Scottish Government conceived of the social economy sector, and of social enterprise in particular, as a policy field where economic and rhetorical resources could be invested in anticipation of a political return from those diverse groupings of organisations and individuals engaging in it or benefiting from it. Social enterprises became a suitable mechanism to tackle wicked issues entrepreneurially, enabling the process of gaining a wider consensus. The infrastructure was built by providing the sector with material resources (from seed funding to networking and infrastructure building grants; but also access to procurement procedures and EU funds), while the rhetoric was embedded in key policy speeches and documents. This is reflected by the launch in September 2016 of the first governmental "strategy for internationalising social enterprises", promoting *"the Scottish Government's ambitions for international excellence, leadership, and impact in the social enterprise field. Our commitment in this field is intended to contribute to sustainable economic growth domestically and to increase the presence and impact of Scottish social enterprises across the world"* (Scottish Government, 2016: 6). However, from 2008 onwards, the economic and financial crisis has had repercussions on the sector, which has started to suffer from two related phenomena. On the one hand, the pressure on and interest in the sector has increased - inflated by the 'developed path' of support to the sector and mainstreaming discourses (also emanating from other policy levels, e.g. Westminster but also the EU level) that

overemphasized the social economy's potential - public actors have tended to raise expectations about the capacities of the social economy to provide solutions to several social (and economic) needs. On the other hand, the interest in the sector by public actors has run in parallel to the reduction in public funding provoked by the global financial crisis. Considering that the growth of much of the sector had occurred thanks to public funding and policy opportunities, once such opportunities drastically diminish, the whole sector stumbles.

Drawing from data of a large mixed-methods study on the Scottish social economy and social enterprise sustainability, this paper argues that the instrument (social enterprise) has developed its own expectations and voices and the government's use of it to mitigate austerity has generated a form of short circuit reflected in the ways in which some of the social enterprises express criticism. Is social enterprise policy therefore failing in its function of redistribution? The implications for a policy-aimed use of the sector are that with fewer opportunities competition increases and it is often driven by a narrow interpretation of price and costs, for which many social enterprises are disadvantaged from the outset, since the services they deliver generally require greater investment. Yet they may also have a bigger impact on people's lives. However, funding criteria are very specific about what the money can be spent on, thereby limiting the options of using part of it to develop initiatives that could generate additional income or serve an unmet need in the community. Organisations therefore try to recover their costs with little space for experimentation, and so genuine innovation is prevented. As a consequence, the sector is at a crossroads where different scenarios can be envisaged. The sector could shrink in size and, akin to what it used to be a few decades ago, play a mainly ancillary role in policy implementation. However, considering the severe reduction in public spending, it is likely that increased

commercialisation of the sector would maintain only few ‘surviving’ highly professionalized, enterprise-oriented organizations, competing for a diminished set of resources. However, other scenarios could account for an expansion of social enterprise into a wide ranging sector covering unexplored policy areas and benefiting from innovative experimentations at the local level or indeed new combinations of private/public partnerships. Whatever path the Scottish social economy will take, it is highly improbable that the latest crisis will not challenge the status quo (or the status quo ante). What makes such changes worth exploring is that they could predict how the social economy will look like over the next decade not only in Scotland, but more broadly in Western Europe, where similar political-historical paths of development, as well as austerity policies, are in place (Author A et al. 2019). In fact, while the focus of this paper is Scotland, the underpinning discussion reflects upon the extent to which national policies can be interpreted and implemented, mirroring the process of organisational interpretations and translations by diverse policy actors that is policymaking (Ball et al. 2011). This in turn has important implications for the relevance of this study to other contexts and how it relates to social enterprise policy development.

Hypothesis

The hypothesis this paper attempts to test is that the recognition of social enterprise in Scotland has served the purpose to corroborate the ‘new’ (Scottish National Party- (SNP)-led) Government’s legitimacy and to broaden its social support through redistributive and employment creation policies. In recent years the sector has flourished, benefiting from an extensively organized ‘ecosystem’ comprised of those economic, cognitive and human resources committed to it, as we explain later in this

paper. However, in recent times, public spending cuts are increasingly impacting on the agency of the social economy.

Over the last decade social enterprise has enjoyed growing levels of political and economic support. While in the UK the label ‘social enterprise’ became popular during the New Labour Government in Westminster (Kendall 2000), Scotland was slow in recognising the potential of social enterprise in policy terms. Prior to 2007, Scotland was a stronghold of Labour voters, averse to the ideas of New Labour. As with many devolved administrations politicians describe their own systems as distinct (Timmins 2013), which has supported the process of not including marketization or competition as the guiding principle for public service delivery and rather shaping social policy around inclusiveness and fairness. With the dominance of SNP from 2007 onwards, the language and focus of the government changed, as the leading party was seeking new allies in civil society it began to promote the idea of social enterprise as *“forms of business where social and commercial goals are blended together in the pursuit of a fairer and more equal society”* (Scottish Government 2016:4).

It should also be noted that this intention benefited from other factors too. Firstly, it reflects a ‘path dependency’ trajectory: partly the historical evolution reflected in the persistence of social, political and/or cultural institutions (specific to Scotland is the country’s historical cooperative and philanthropic traditions). Partly, it derives from the need to secure service delivery in sparsely populated areas (which constitute most of Scotland’s territory) and in which public action is either very expensive or materially difficult to build up. Secondly, it is also due to the growing expectations in many European countries about the sector’s capacity for job creation. Therefore, Scottish policy makers, at various levels of government, have considered that investing in and supporting the social economy is an objective worth pursuing. However, this support

has also generated some tensions, given that some local authorities have been much less inclined to support the sector. Thirdly, concurrent with developments across Western Europe, social enterprises in Scotland have assumed a prominent role in service provision across various fields of expertise. Increasingly the Scottish Government has supported and invested in programmes that stimulate the development of social enterprise as a service delivery mechanism.

The Scottish social economy sector at its origin and its key developmental steps

Scotland is considered a nurturing environment for social enterprises, and more broadly, for the social economy as a whole (Roy et al, 2014). According to the first Scottish social enterprise census (2015), the country hosts around 5,199 social enterprises generating an annual income of £3.63bn and employing over 111,000 persons (Social Value Lab, 2015:3). These are located primarily in the urban neighbourhoods of Lowland Scotland. However, the incidence of social enterprises per 1,000 inhabitants is much greater in the Highlands and Islands, hosting more social enterprises than would be expected given the area's population share (Ibidem). The 2017 Social Enterprise Census also shows an 8% growth of the number of social enterprises since 2015. Social enterprises are active across all economic sectors, covering the whole geography of Scotland and are generally profitable. The sector contributes more than £2bn GVA to the Scottish economy and provides more than 81,000 FTE employment (Social Value Lab, 2017).

Such a large presence of social enterprises in a relatively small country (5.4 million inhabitants) as well as its high diffusion in sparsely populated areas, is the consequence of a genuine interest for the social wellbeing which has been embraced in Scotland through the very early creation of cooperatives and philanthropic capitalism, but it also

reflects the effort in terms of resources that the government, and in particular the SNP led government, have deployed to promote the sector since their election victories in the Scottish Parliament from 2007 onwards.

Early forms of social organisations in Scotland which are considered predecessors of contemporary social enterprises date back to the 18th century (Roy et al 2014). It has been argued that establishing cooperatives and civil society organisations became a way to address needs related to poverty, and in particular deprivation among the elderly, disabled people and at that point mainly Irish immigrants. This ‘early period’, and in particular the pioneering development of co-operative provision of mutual welfare support independent from the state, forms the background to the development of the modern welfare state in the 20th Century (Ibidem).

This tradition strengthened in the following centuries. In the 20th century the combination of neo-liberalism and social authoritarianism embraced by Thatcher (and after 1990 her successor John Major) were deeply unpopular in many parts of the UK, but in Scotland they were reinforced by the perceived unrepresentativeness of the UK parliament (Fuchs 2016). During this time, community business - an idea that originated in rural Ireland to stem the migration of mainly young people to towns, cities and elsewhere - was nurtured as a model to support Scotland’s needs. Multi-functional community co-operatives were established to create jobs that could be filled by local people and provide services to the community. The Highlands and Islands Development Board was attracted to the Irish model and imported the concept into small rural communities. Community co-operatives were often established with seed core grant funding matched with share capital collected from local residents, allowing small businesses such as heritage centres, salmon hatcheries, visitor cafes, and holiday bunk houses to become established (Pearce 1993). The idea soon spread to the lowland

urban areas of Scotland, and led to the creation of community businesses based upon open membership to residents and voting for a management committee of local people (Pearce, 1993). These flourished in the early 1980s as local authority services faced growing cuts and unemployment reached record levels. The term ‘community enterprise’ became more widely used (Pearce, 1993, 2003) and these organisations came to form part of what are now understood to be social enterprises (Kay, 2003).

New Labour’s UK election victory in 1997 led to a second referendum on Scottish devolution the same year, and following an emphatic vote, the re-establishment of a Scottish Parliament with tax varying powers in 1999. For the first time since the Union of Scotland and England in 1707, Scotland had its own national elected executive determined by elections in Scotland (Curtice, 2006). The devolution settlement for Scotland is relatively complex, but, broadly speaking, among the devolved subjects several are of interest for the social enterprise sector, such as health, education, local government, social work, housing, and local environment and planning. Therefore, salient areas of policy that touch upon the third sector, including support for social enterprise, were devolved to the new ‘Scottish Executive’ (later renamed ‘Scottish Government’). In the early phase of devolution, the opportunity given to the Scottish Government to craft new, distinct, policies as a way to differentiate itself from Westminster was mitigated by Labour being in power in both Edinburgh and London. However, things started changing when the Scottish National Party (SNP) took power in 2007 and a Conservative-Liberal Democrat UK coalition government was elected in 2010¹.

¹ The situation has not changed in the following years with both parties, the SNP and the Conservative UK, keeping their power in Scotland and in the UK through the elections held respectively in 2015 and 2016.

As a newly elected executive, the SNP government needed to find policy areas which enabled the strengthening of its social consensus, thus increasing its popular legitimacy, while simultaneously profiling it in contrast with the (very unpopular among Scots) Conservative-led government. It has therefore started elaborating policies diverging from Westminster, for example in education (opting for a tuition-free university system) and in social care (developing a free home care assistance for elderly people).

However, to maintain and broaden their popular support, and legitimacy, governments usually need to recur to redistributive policies, that is, policies allowing a direct redistribution of resources across society. The welfare state offers the most salient tools to practice such redistributive policies, however most of the welfare state policy prerogatives are not devolved. Hence, the Scottish Government has needed to deploy a certain creativity to broaden its portfolio of redistributive policies.

The more recent development of the sector's infrastructure and ecosystem

Aspects of the New Labour agenda and associated ideas of the 'Third Way' (Giddens, 1998) were regarded with scepticism in some of the more 'old' Labour parts of Scotland. In these quarters such terms as 'enterprise' were perceived as reminiscent of Thatcherism, a political doctrine which did not achieve mass appeal in Scotland (nor in many other parts of the UK, particularly the former industrial regions). The term 'social enterprise' therefore did not appear in the policy documents of the Scottish Labour Party until 2007 (Scottish Executive, 2007). However, the SNP enthusiastically embraced what they described as the 'enterprising third sector', and introduced a number of initiatives and significant financial support for social enterprises (Author B 2017). Initially, there was explicit and public endorsement. For example, in February

2012, at the launch of *The Social Enterprise Exchange*, the self-styled ‘world’s biggest social enterprise event’, Scotland’s then First Minister, Alex Salmond MSP, declared that he wanted to “*continue to provide the most supportive environment in the world for social enterprise*” (Ainsworth, 2012: 1), while announcing a new programme designed to support Scottish social enterprises to expand internationally. More recently, Scotland’s (then) Finance Secretary John Swinney MSP, prior to his appearance at a conference on social enterprise in Norway said that:

“Scotland has been recognised as the best place in the world to start a social enterprise and there is increasing international interest in what some are calling the ‘Scottish Model’... an enterprising third sector is a vital partner in our economy, in civic society and in the creation of a fairer and more inclusive Scotland” (The Scotsman, 2014: 1).

Lately, the social enterprise sector in Scotland is described as ‘thriving’ in Scotland’s Economic Strategy (Scottish Government, 2015). Admittedly, the Scottish Government has made considerable investment into the sector and fostered the development of support for social enterprise activity. This commitment is evident in a number of ways. For example, Scotland’s Economic Strategy recognises the contribution of social enterprises and other socially responsible businesses to our core purpose of sustainable economic growth:

“We have thriving energy, life sciences, and creative industries and social enterprise sectors, while Scotland’s tourism and food and drink are internationally renowned.” (Scottish Government, 2015: 17)

Moreover, Scotland’s Social Enterprise Strategy 2016 – 26 outlines a wide-ranging and long-term approach to develop the potential of Scotland’s social enterprise sector. The

Strategy is delivered through a series of underpinning ‘action plans’. The first, published in April 2017, is entitled ‘Building a Sustainable Social Enterprise Sector in Scotland: Action Plan 2017-2020’ (Scottish Government, 2017). This Action Plan outlines a number of commitments to develop organisational capacity through finance and business support, develop market opportunities through procurement and the coproduction of services, as well as supporting national and international recognition.

There are also a range of policy interventions in Scotland aimed at supporting the development and finance of social enterprises. Both *Firstport* and *Business Gateway* are prominent agencies that provide support for start-ups. Both agencies focus on promoting businesses aiming to have a positive impact on the community or the environment by offering training, resources and business support, albeit that *Business Gateway* has traditionally focused their attention on mainstream for-profit business. The *Social Entrepreneurs Fund* is managed by Firstport and it provides finance to individual entrepreneurs to start up new social enterprises. The *Enterprise Ready Fund* provides grants to help new, emerging and established social enterprises become more self-sustaining and grow. The *Scottish Investment Fund* awards provide a mixture of grants, risk capital and loans, following successful application by third sector organisations. Furthermore, young businesses can take advantage of a variety of programmes and tools, such as technical support for the development of Public Social Partnerships under the *Ready for Business* programme.

The Scottish Government also funds a considerable number of support agencies to sustain social enterprise development and operations. In an attempt to rationalise the support available to social enterprises the development of a single ‘Third Sector Interface’ was encouraged in every one of the country’s 32 local authority areas. These have been tasked with supporting the development of Third Sector activity, including

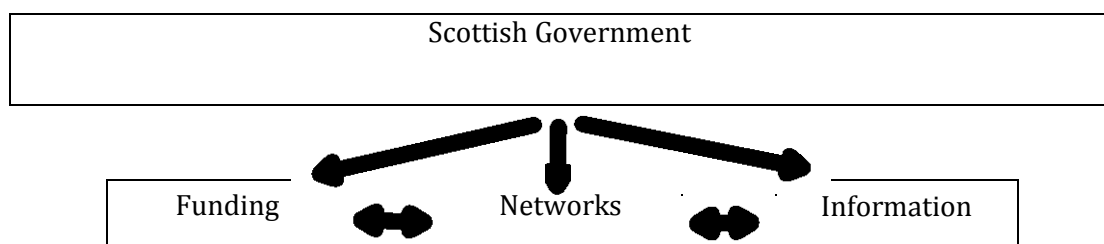
social enterprise, and ensuring that the sector has a voice in community planning discussions.

The government also supports directly the Social Entrepreneurs' Network for Scotland (SENSCOT), which has the objective of supporting entrepreneurs and their ventures.

Other examples include the support to Developing Markets for Third Sector Providers programme through which the Ready for Business consortium provides support for public social partnerships (PSPs) and the implementation and use of Community Benefit Clauses (£2.8 million from 2014 to 2016). The *Just Enterprise* programme - provides tailored business support to social enterprises and entrepreneurs (£4.8 million from 2014 to 2017). The Government also supports Community Enterprise in Scotland (CEIS), a large social enterprise support agency based in Glasgow which specialises in delivering training, support and investment programmes. The Social Growth Fund delivered by Social Investment Scotland (SIS) offers access to loans for social enterprises (SIS used £8 million in repayments from 2014 to 2016 to loans from the Scottish Investment Fund). Business Gateway and other enterprise bodies provide support to all types of business - but with a specific social enterprise remit - are also directly funded by the Scottish Government. A more recent programme includes the 'Growing the social economy' initiative which aims to increase the capacity and sustainability of third sector organisations to develop programmes and encourage social innovation approaches to tackle poverty, thus creating stronger links between social economy organisations, communities and academia. This programme is implemented through two distinct funding streams: the social economy growth fund – focused on TSOs working on poverty reduction/social inclusion; and the Social Innovation Fund – supported by ESF – which enables social economy organisations to work in

collaboration with academia, as well as the public and private sector to develop, test and scale up new ideas and solutions to tackle poverty and disadvantage. Moreover, the Scottish Government has encouraged co-operation between SENSCOT, Social Enterprise Scotland and Social Firms Scotland, through a ‘Supporting Social Enterprise’ partnership strategy.

Figure 1 summarises the governmental investment in the sector



Methods

This paper draws on a large body of primary data collected through an EU-funded project (reference omitted to maintain anonymity) over a three year period (2013-2016) through a mixed-methods approach including document/literature reviews, in-depth interviews and focus groups with social economy actors and stakeholders, and an on-line survey of social enterprises. In particular, for this paper we have relied on a thematically focused analysis of 21 in-depth interviews and two focus groups with a range of social economy stakeholders: social entrepreneurs, governmental officers, finance and banking representatives, trade unions, and academics. Interviews were based on a semi structured schedule focusing on aspects related to social enterprise

development, features, and expectations. The focus groups were based on a semi-structured guideline, investigating the paths of interaction between stakeholders and their prospective ideas about the sector's future shape.

The first of these focus groups was held in Glasgow and involved representatives of the city's social enterprise community (n=6). In order to collect the views from a (relatively) broad spectrum of social enterprises, organisations from different sectors of the local social economy were invited to take part in the group discussions. The sampling process was purposive, maximum variation sampling (Mason, 2002), reflecting the heterogeneity of the local social economy (Author B, 2017). In total, the participants included chief executives and/or founders of local organisations, of which two were established in relatively recent years, and the others for more than a decade. The second focus group was held in Edinburgh and it involved the participation of key representatives of intermediary organisations (n=5), that is agencies representing, developing, and working with/for social enterprises across Scotland. Each interview and focus group was recorded and transcribed. Transcriptions and notes were thematically analysed, following an abductive approach implemented throughout the process of revisiting data and meanings (Timmermans and Tavory, 2012).

Findings - Challenges to the sector

Providing the material resources – in the forms of financial support, access to procurement opportunities and EU funds – and developing recognition within and outside of Government has contributed towards developing the social enterprise sector, particularly as a service delivery model that supports inclusive growth. Several of our interviewees expressed support for the measures taken since devolution in 1999 and in

particular by the SNP led Government since 2007. The responsiveness of and support infrastructure facilitated by the Scottish Government were commended:

“For sure the social enterprise sector is by far in a stronger position and well supported because of the government that we currently have. Our voice is louder. We’re a small country, so it’s not hard to rally the troops around this”
[Practitioner].

“In Scotland in particular there’s a very extensive infrastructure of support that’s been built over the last ten years, driven by willingness on the part of the Scottish Government to support, stimulate and encourage social enterprise. So [the] government has been willing to listen, and it’s been willing to support quite heavily the infrastructure of support” [Scottish Government].

The results are noticeable and measurable. For example, there has been an 8% increase on the last census (2015) and 34% of all social enterprises in Scotland (5600) are ten years old or less (Social Value Lab 2017). Reflecting the alignment with key areas of public policy, the economic sector with highest proportion of net change between 2015 and 2017 are food +28% and employment +22% (Ibidem).

The political interest in social enterprise has also triggered a process of necessary affiliation to this organisational form. For example, participants at the social enterprise focus group in Glasgow talked about ‘performing’ social enterprise in order to obtain funding or preferential treatment. The social enterprise focus group participants generally felt they used the term to describe their organisation when circumstances require it (e.g. for funding bids). Some of the participants felt more comfortable in using their legal status (e.g. charity) than the ‘badge’ social enterprise. Organisations

originally rooted in community /development work felt they had to “become social enterprises” in order survive the changed political and funding climate. While initially funding for social enterprise could be as high as 100% of turnover (begging the question as to why the social enterprise term was felt to be useful to describe such activities), throughout the years the level of government support has reduced to around 20% of their operations/income, with most of the remaining 80% generated through trading. Therefore, they have had to adapt to changes and learned to live with new circumstances, often ‘acting the part’ required to obtain funds.

As one of the participants noted when asked about using the term social enterprise to describe their organisation:

“Well it depends on who you are speaking to and to what end [...] If you are writing it down, you have got to say you are a social enterprise” (Focus group

1)

The political emphasis put on the social economy sector, and the support it received from the government, have created a situation where tensions arise among the various actors: between the sector itself and the government, between the sector and local authorities that are often the institutions where policy implementation occurs, and between local authorities and the government. In fact, the government invested in the sector as a source of legitimacy and popular consensus, but also because it considered social enterprises as vectors of job creation, as well as service providers allowing cost containment in health and social care. Consequently, the government has not been immune from appreciating the social economy as far as it is capable of evolving into a self-sustainable business. In this sense, placing itself de facto, and contrary to its social democratic rhetoric, in a trajectory of neo-liberal understanding of social enterprises.

Our interviews unveil that there are unrealistic expectations about the prospects of social enterprises reaching sustainability and how this could be achieved, particularly if attention focuses only on their finances rather than their wider contribution to community wellbeing; as one focus group participant said, there “*is a mismatch between expectations and language*” (Focus group 2). This is reflected in the misconceptions of funders about the needs of social enterprises and also the ways in which the procurement process is enacted.

“[...] I don’t think it is useful for the funders to constantly want you to be innovative. I think what we do is innovative [...] but there is a pressure to reinvent the wheel, as soon as new political or whatever current thinking comes over [...].” (Focus group 1)

The social enterprise sector is an important part of the Scottish economy – in total an estimated £3.8bn and contributing £2bn GVA according to figures from the 2017 social enterprise Census. Given its importance, development is a very relevant issue for policy-makers at all levels. Stakeholders have argued that harmonizing policies, legislation and objectives across all levels of policy-making is a central goal to enable the sector to reach its full potential. The importance of effective collaborative systems in planning is further emphasised by current austerity policies, which make the cost consciousness of public authorities and the efficiency of social enterprises crucial, especially considering the increased need for social support in the areas that have suffered most.

However, data from the Census also reveals that social enterprises are affected by the state of the economy, austerity and public spending. Half of all social enterprises (50%) reported a negative effect of the economic climate on the outlook for their business,

and only a small minority (7%) was positive. Whilst the Scottish Government claims to recognise the contribution of social enterprises to the local economy, when it comes to securing public contracts there is little practical recognition, as what counts is cost saving and carrying out the work in time.

Our focus group participants felt that if there was genuine government appreciation of the contribution of social enterprises to the local economy, then the social return on investment would also be considered. In fact, practitioners claimed that what funders are currently interested in is only the financial sustainability of a service, rather than its long term effectiveness:

“funders are all using this word sustainability, so how are you going to sustain the services after the money has gone? It forces you to being commercial, where actually they should look at the sustainability round about the services we are delivering. That is, social turn on that investment, saying ‘do you know what, that is actually very good value for money’, if the council delivered that it would be five times or three times as much” (Focus group 1).

Procurement was seen as potential enabler of social enterprise at the local level, but because of the decentralised nature of Scotland, interpretation of and a desire to do this was dependent upon individual local authorities. In general, the main indicator for evaluation in the procurement process is still value for money, rather than the social value of activities delivered. This seems to have been even more the focus since austerity has started to bite: council budgets have come under pressure and it is harder thus to argue for taking into account the social return on investment. The focus on larger-scale, cheaper providers have made competing for public service contracts

difficult for social enterprises. This has been particularly exacerbated in Scotland due to austerity and cuts in public expenditure:

“I think it’s [procurement process is] not even skewed just towards private businesses, it’s skewed towards big business.” (Social enterprise Support Organisation)

A revised public procurement process that included social impact would support social enterprise sustainability and contribute to more a level playing field with private companies. While some local authorities in Scotland recognise the potential of social enterprise for their local economies and privilege cooperation, others (particularly Glasgow) are less inclined to openly support smaller organisations. In part this is related to misconceptions that could be overcome through better interaction and networking among actors from different sectors. In the end, focus group participants felt that developing better working relationships between social enterprises, local authority and also the private sector would enable mutual understanding and mitigate misconceptions.

Many share the opinion, however, that change is inevitable because the economic landscape has changed. As one local authority stakeholder we interviewed explained:

“councils have been shrinking in terms of the number of people employed with them, their budgets are shrinking but their overall responsibilities remain the same. Councils are being forced to change in terms of their outlook, they can no longer be ‘This is how we do things and we control all the resources.’ Councils now need to work in partnership, and by partnership I don’t mean the Council controls all the rules. It needs to be involved in setting up, in working within genuine partnerships with external organisations, be it third

sector, social enterprise or private sector, increasingly in service delivery”.

(Focus group 2)

Another tension arises between the local authorities understanding of the social economy and how the government views social enterprise and how the sector views itself. Local authorities see a clear link between austerity-led policies and the role of social enterprise. In particular, they perceive the sector as having a role to play in addressing issues of market failure, specifically the failure of the market to address social equality among citizens:

“There’s an element in the social enterprise sector that think that social enterprises are there to meet government failure. Social enterprise is there to meet economic failure, and that is different. Bear in mind, social enterprise is not a business form, it’s not an entity type. Social enterprise is a brand. So what did they do before? If you take the rural communities, the co-operatives funded them, that’s me being from the co-operative. Co-operatives were a way of doing business where services were provided but it wasn’t because of austerity, it was because of economics. So if you lived in a rural community you maybe didn’t have a supermarket or certain delivery services, you didn’t have access to the same type of goods or services that elsewhere, an urban area, may have. So you had two choices at that point, you either complained and didn’t deliver anything or you set up an organisation within the community and delivered it for the community. That’s a social enterprise, but they’ve been going for the last few hundred years. So it wasn’t necessarily from austerity it was because the service wasn’t allowed. Austerity and deprivation, all these other things, can create it as well to meet a need but it’s not the only reason” (Local Authority stakeholder).

As this quote shows, there is still a perception that social enterprise *also simultaneously* exists to address aspects of ‘state failure’, particularly in vulnerable communities where the state has not had a particularly good record of addressing issues relating to social exclusion and vulnerability. Such fragile communities and services are particularly at risk as the state retreats from certain areas of public policy due to austerity. But this can also serve as an impetus for community action, which can often be expressed in new social enterprises being created. According to one LA stakeholder, councils can partially compensate for the negative effects of austerity policies on the services they provide to their communities by forming partnerships with other organisations from the third or the private sectors or with social enterprises. On the importance of public promotion of cohesive networks of organisations looking after communities and their needs, this interviewee stated that the average LA:

“no longer controls all the resources, so it needs to work smarter. You have to change the mind-set within the Council, whereby people think ‘I don’t just work for the Council, I work for the City of Glasgow’ and the City of Glasgow includes all these businesses and other organisations. We should be working to complement what [others are] doing rather than just say ‘I work for the Council, these are our objectives, and I make sure they’re met’. It needs to have a more holistic view of the city” (Local authority stakeholder).

To this end, an important stepping-stone is to ensure adequate political support for a new perspective on the role of the public sector in service delivery. This in turn implies a revived mode and manner in which the communities are engaged, by giving them access to the decision making process and allowing them to learn and participate in the democratic process about how money is allocated. It also means making communities aware of the difficult decisions that often have to be made,

and which compromises are necessary to meet the different, and sometimes competing, needs and demands of the various social groups that comprise each community.

The Scottish social economy sector in the future: a discussion

The evidence gathered in Scotland suggests that the attempts of the SNP to embrace social enterprise as a means to redistribute resources and build a network of civic support have functioned at different levels. As the evidence discussed indicates, the extensive interventions and financial support have created a nurturing ground for social enterprise development in this region. The numbers of social enterprises are increasing and the network of support is gradually more sophisticated and strategically engineered to support the growing numbers of organisations. While this network of support can be characterised as a closed-knit community of organisations making up the supportive structure of social enterprise in Scotland, these bodies can find themselves competing for funding and policy support, and so tend to be brought together in cooperation by the ‘Supporting Social Enterprise’ partnership strategy developed by the Scottish government.

However, from 2008 the economic crisis and the austerity policies which followed have exacerbated the relationships between SEs, local authorities and ultimately the government. As public funding has reduced, the tensions between social enterprise sustainability and service capacity have increased. It can be argued therefore that the critical capacity of SEs has begun to emerge. For example, in Glasgow, where the number of SE has increased by 4% between the two censuses (2015 to 2017) and the currently 732 social enterprises contribute to the local economy with £1.6bm of total annual income, social enterprises are not recognised as a player by the local authority

(Local Authority stakeholder). Arguably, this is also true for other businesses, considering that the rate of survival of new businesses is very low in the city, certainly one of the lowest in Scotland (Local Authority stakeholder).

Glasgow's reputation as a centre of social economy innovation (Amin et al 2002: 61) stems mostly from the role played during the 1980s by the city in developing the Community Business Scheme. While the conditions which gave rise to this have largely disappeared, and policy has reverted to a more controlled social economy (ibid), the legacy of the Community Business Scheme can still be found in the ethos of some community based organisations. The centrist approach to social enterprise development was reflected in the view expressed in our focus groups that *"if you want to do something it has to fit Council politics or it just wouldn't happen"* (focus group 2). The reputation of Glasgow as having a centralised local political culture perhaps explains why civic participation is lower there than elsewhere in Scotland, with residents less likely to be involved in democratic and decision making processes, including voting in elections. A centralised political culture with little agonism - accepting difference and reaching agreement through discussions between opposing interests (Amin et al 2002) - as reflected in the low levels of civic participation, offers little space for the social economy to grow independently, as it remains considered to be a marginal activity offering little space for its experimentation.

The general view, emerging from our consultation, is that whilst the Scottish Government is highly supportive of the social enterprise community – as reflected in the legislation and funding - this is not translated into action at the local level, particularly in Glasgow. Traditionally a stronghold of the Labour Party, in recent years the Council has often stood against the Scottish National Party, elected to Government in 2007. As the quote below indicates:

“If you’re talking specifically about Glasgow there is a peculiarity in its relationship to the Scottish Government. There is a kind of, dare I say it from the outsiders point of view, a determination that Glasgow will do things its own way regardless of what the Scottish Government thinks. That has to be seen as a challenge” (Focus group 2).

It is only after the most recent local elections, when Labour lost its majority and an SNP leader was nominated that the dialogue with the social enterprise sector has begun to develop. For example, a Glasgow Social Enterprise Strategy is currently being developed in collaboration with the local Social Enterprise Network. However, many focus groups participants considered Glasgow to be less supportive than the Scottish Government in many respects, particularly in its propensity to recognise the contribution of social enterprise to the local economy. Nevertheless, Glasgow is the base of several significant and successful UK social enterprises (e.g. the Wise Group).

While the current programmes in support of social enterprise are proving successful, in that their impact on the Scottish social economy is often sizeable, the results are being obtained in a regime where European funding plays a large role. The outcomes of Brexit may be a detriment to this trend. Although awareness is high around this point at both a national and subnational level, it is still not seen as a priority by local policymakers to plan ahead for when the administration of social issues will have to continue outside the current subsidized framework. The uncertainty concerning the national strategies for the future development of the social enterprise sector is reflected also by the different perspectives expressed by the interviewees when speaking about the Scottish politicians and their management strategies. While some of the interviewees recognized the importance of politicians like the current Cabinet Secretary for Education and Deputy First Minister, John Swinney MSP, who they

considered one of the “*biggest advocate[s] of the [social enterprise] sector in Scotland*” (financial stakeholder), others accused the political classes (both politicians and civil servants) of being biased - implicitly if not explicitly – towards larger organisations with the most powerful voices, to the detriment of smaller organisations.

Thus, our interviews and focus groups confirmed that the sector experiences a delicate transition phase, constrained by the austerity measures and effects of the economic crisis, a situation reflected also in other Western European countries (Author A 2017, Author A et al 2019) the consequences of which still need to be investigated. Predicting what the future evolution of the social enterprise sector may look like in Scotland is very difficult, according to most of the interviewees. Nevertheless, it is possible to envisage three possible scenarios.

In one such scenario innovation at local authority level could determine the future of social enterprise. For example, there are cases – such as in the highlands and islands of Scotland – where contracts have been disaggregated with the deliberate aim of privileging local provision and fostering local economic development. There is a view however, that it is not a particularly sustainable strategy for social enterprises to be focused on public sector delivery because such a focus might involve making them too dependent on a single source of income, and thus too fragile to truly develop. For this reason, some stakeholders propose that the ‘ecosystem’ of organisations focused on delivering aspects of public policy should expand to take account of the role of other institutions, like banks and other investors:

“I think we need to just diversify the way in which the ecosystem is talking about the importance of this for social enterprises. But absolutely it should be

an ambition that social enterprises should be delivering public sector contracts.” (Financial stakeholder)

This second scenario could see the development of new private/private and public /private partnerships. According to one LA stakeholder we interviewed, councils can partially compensate for the negative effects of austerity policies on the services they provide to their communities by forming partnerships with other organisations from the third or the private sectors or with social enterprises.

However, although the UK civil society sector has a long history of adapting to the demands and funding vagaries of different governments and addressing gaps in state provision (Lewis, 2005), in more recent years’ the decline of public sector funding have taken on new highs. As different studies show, between 2009 and 2010 income to the civil society sector overall has dropped significantly with rising inflation (NCVO, 2013), reductions in grants and philanthropy (Pharoah, 2011) and the loss of service contracts (CAF, 2012). With planned cuts to council budgets of 40% (Local Government Association, 2015) local government is in crisis. Hence despite attempts to achieve cost-efficiencies without reducing the availability or quality of services, civil society organizations are struggling to cope. Within this third scenario the future of SE would then be that of a streamlined sector where only the most commercially viable will survive.

Conclusion

Scotland has represented a nurturing ground for social enterprises to develop and flourish for many years: from the 18th century pioneering projects of *ante-litteram* responsible business, in its twofold versions of philanthropic entrepreneurship and cooperative movement, to the current vibrant social enterprise landscape captured by

the 2015 and 2017 Social Enterprise Censuses (Social Value Lab, 2015:3). However, the enduring effects of the economic crises and austerity policies have modified the context in which social enterprises operate at an extent that can lead to a sector change. Firstly, social enterprises are becoming critical of their ‘supporters’ as reflected in the mismatch between policy and practice. Secondly, people’s needs have increased due to economic and socio-demographic phenomena like persistent and increasing unemployment, work precarisation, ageing and new family models (lone parents). But the crisis that has exacerbated such personal issues has also constrained public finances, restraining the pool of resources available to social enterprises at a temporal juncture in which the expectations regarding the capacity of social enterprises to solve problems have increased. This is due partly to the social economy sector’s historical track record of success in creating employment and delivering services. Partly, this is also due to the expectation promoted by policy makers short of alternatives and of resources. It is in this context that the criticisms emerging from the social enterprise focus group should be noted.

While this paper reflects upon the experience of Scotland, the findings can be interpreted beyond this country, internationally to consider the role that social enterprise has played in securing the wellbeing of communities and individuals, these organisations now face a scenario which could transform them into a different ‘species’. As our interviews and focus groups show, being forced to bid for procurement contracts they become more and more the providers of services at a cheaper cost (and a potential cheap labour reservoir, see Montgomery et al. 2017) and their impact on the well-being of communities has become not only less relevant for their funders, but also more difficult to assess. Hence, the core value of social enterprises risks being curtailed by the current economic environment to an extent

which could threaten the survival of a ‘genuine’, socially impactful, social economy sector.

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